

COMPANY PROFILE

Airbus Group SE (formerly Airbus Group NV)

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COMPANY OVERVIEW

Airbus Group SE (Airbus Group or 'the group'), formerly Airbus Group NV, is a diversified provider of aerospace and defense products and related services. It is the parent company of Airbus, Astrium, Cassidian and Airbus Helicopters. The group operates in the Americas, Europe, Middle East and Asia-Pacific. It is headquartered in Leiden, the Netherlands.

The company reported revenues of (Euro) EUR64,450 million for the fiscal year ended December 2015 (FY2015), an increase of 6.2% over FY2014. In FY2015, the company's operating margin was 6.3%, compared to an operating margin of 6.6% in FY2014. In FY2015, the company recorded a net margin of 4.2%, compared to a net margin of 3.9% in FY2014.

The company reported revenues of EUR13,950.0 million for the third quarter ended September 2016, a decrease of 15.8% over the previous quarter.

KEY FACTS

Head Office	Airbus Group SE (formerly Airbus Group NV) 2303 DA Leiden Leiden Leiden NLD
Phone	
Fax	
Web Address	www.airbusgroup.com
Revenue / turnover (EUR Mn)	64,450.0
Revenue (USD Mn)	71,515.8
Financial Year End	December
Employees	132,973
Euronext Paris Ticker	AIR

SWOT ANALYSIS

Airbus Group SE (Airbus Group or 'the group'), formerly Airbus Group NV, is a diversified provider of aerospace and defense products and related services. The group has a wide operations base and presence in various industries, which limits the impact of specific market risks and results in overall revenue growth. It also enables the group to leverage the opportunities in various markets. However, intense competition across all the operating divisions of the group could reduce its market share. In addition, the home country preference for issuing contracts in few countries may put the group at a competitive disadvantage when compared to its peers.

Strength Diversified business operations Strong research and technology capabilities Global operations and diversified revenue base	Weakness Legal proceedings Larger dependence on subcontractors and suppliers
Opportunity Positive outlook of the aerospace and defense sector Increasing demand for commercial airplanes Robust order backlog and new contracts Expanding UAV market	Threat Export controls and other regulations Fluctuations in foreign currency exchange rate Intense competition

Strength

Diversified business operations

Airbus Group has diversified operations and presence in various industries. The group operates through three business divisions: Airbus; Airbus Defence and Space; and Airbus helicopters. The Airbus division, is a leading commercial aircraft manufacturer, which offers a range of fuel-efficient aircraft. This division competes in single-aisle aircraft, such as the A320 family with 100-200 seats; twin-aisle or wide-body aircraft such as the A330 / A350 XWB families, having a wider fuselage with more than 210 seats; very large aircraft, which are designed to carry more than 400 passengers; freight aircraft, which are often converted ex-passenger aircraft; and corporate, VIP business jet market with the ACJ, an A319-based Corporate Jetliner, and the A318 Elite.

Furthermore, Airbus Defence and Space division consists of four business lines, including military aircraft; space systems; communications, intelligence and security (CIS); and electronics. The division is Europe's largest defense and space enterprise, the second largest space business worldwide and among the top 10 global defense contractors. Its products contribute to nations' security and secure Europe's independent access to space.

Moreover, the group's Airbus Helicopter segment is one of the leading players in the civil and military

helicopter market, offering a range of helicopters and related services. The segment's product portfolio includes light single-engine, light twin-engine, medium and medium-heavy helicopters. The group's other businesses include turboprop manufacturer ATR, aerostructure and aircraft seat business Sogerma and Airbus Group Inc., the American operating company of the group.

Thus, a wide operations base and presence in various industries limits the impact of specific market risks and results in overall revenue growth. It also enables the group to leverage the opportunities in various markets.

Strong research and technology capabilities

Airbus Group has a strong emphasis on research and technology for the delivery of innovative products and technologies. The group's research and Technology efforts are focused on profitability, value creation, market position and delivering competitive, integrated solutions for its customers. In FY2015, the E-Fan became the first all-electric aircraft to cross the English Channel taking off and landing under its own power. The E-Fan demonstrator sets the stage for subsequent production versions: first, the two-seat E-Fan 2, scheduled to make its maiden flight late in 2017. In addition the group launched a quality improvement strategy with the aim of delivering even better products and services to its customers. In FY2015, Airbus Group's self-financed R&D stood at E3,460 million (\$3,759.8 million) compared to E3,391 million (\$3,684.8 million) in FY2014, primarily reflecting R&D activities at Airbus Commercial.

The group's strong R&D has developed and launched a number of new products and services. For instance, Airbus Group spin-off companies managed by the Nursery include TESTIA, the group's non-destructive testing and training subsidiary and APWORKS, a globally-recognised leader in 3D-printing that offers consulting and engineering services for state-of-the-art production processes. Both of these companies continued their successful growth with new products, services and lines of business launched during 2015. The group in 2015 also signed a key licensing agreement with Maserati that established a long-term strategic partnership with this Italian luxury automobile manufacturer, which provides broad access to make in-depth reviews of the group's portfolio of patented technologies over a multi-year period. Thus, strong R&D capabilities allow Airbus Group to develop proprietary products, strengthen its product portfolio, and have an advantage over its competitors.

Global operations and diversified revenue base

Airbus Group is a global company that operates across many sites worldwide. The group's Airbus division production and assembling facilities are primarily located in France, Germany, the UK and Spain. The group's other centers are located in Wichita (Kansas), Mobile (Alabama), Moscow (Russia), Bangalore (India) and Beijing (China). The Airbus Defence and Space division is headquartered in Munich, Germany. The division's main engineering and production facilities are located in France (Paris-region and South-West France), Germany (Bavaria, Baden-Wurtemberg and Bremen), Spain (Madrid-region and Andalusia) and the UK (Southern England and Wales). In addition, Airbus Defence and Space operates a global network of engineering centers and offices in more than 80 countries.

The Airbus Helicopter division has four primary locations, including Marignane, in southern France, La Courneuve, near Paris, France, in Donauworth, Germany and in Albacete, Spain. The group's ATR business has plants in Naples, Italy, and in Merignac, France. The Airbus Group Inc. is headquartered in

Herndon, Virginia. The group generates significant revenues across all the geographic regions it operates in. For instance, in FY2015, Europe accounted for about 31.1% of the total revenues, followed by Asia - Pacific (29.1%), the North America (15.9%), Middle East (13.4%), Latin America (6.4%), and other countries (4.2%).

Strategic global presence coupled with diversified revenue base enables Airbus Group to take advantage of opportunities within any geographic segment, while at the same time not leaving it unduly vulnerable to region specific threats.

Weakness

Legal proceedings

Airbus Group is engaged in several active legal and regulatory proceedings. For instance, in 2012, the German public prosecutor launched a criminal investigation into alleged bribery, tax evasion and breach of trust by current and former employees of Airbus Group Deutschland and Eurofighter Jagdflugzeug. The investigation was related to the sale of Eurofighter aircraft to Austria in 2003. The investigation is still underway and the outcome is beyond the control of the group.

In addition, public prosecutors in Greece and Germany launched investigations into a current employee and former officers and employees of Atlas Elektronik, a joint company of ThyssenKrupp and Airbus Group, on suspicion of bribing foreign officials and tax evasion. The public prosecutor in Germany has launched an administrative proceeding for alleged organizational and supervisory shortfalls. The authorities in Greece have launched civil claims against Atlas Elektronik. With the support of its shareholders, the group is cooperating fully with the authorities and in consultation with the public prosecutor is assisting the further clarification of the matter through its own internal investigation. Although Airbus Group is unable to predict the outcome of these proceedings, however in case of imposition of damages, fines or other remedies, could have a negative effect on Airbus Group business, financial condition and results of operations. An unfavorable ruling could also negatively impact Airbus Group reputation in the competitive market.

Larger dependence on subcontractors and suppliers

Airbus Group relies on other companies, including subcontractors and suppliers to provide and produce raw materials, integrated components and sub-assemblies, and production commodities and to perform some of the services that it provides to its customers. If one or more of the group's suppliers or subcontractors' experiences delivery delays or other performance problems, Airbus Group may be unable to meet commitments to its customers. In addition, if one or more of the raw materials on which the group depend (such as aluminum, titanium or composites) becomes unavailable or is available only at very high prices, the group may be unable to deliver one or more of its products in a timely fashion or at budgeted costs. In some instances, Airbus Group depends upon a single source of supply. Any service disruption from one of these suppliers, either due to circumstances beyond the supplier's control or as a result of performance problems or financial difficulties, could have a material adverse impact on the group's ability to meet commitments to its customers or increase operating costs, which in turn would negatively affect its profitability.

Opportunity

Positive outlook of the aerospace and defense sector

The aerospace and defense market is deemed to be the revenues accrued by manufacturers from civil and military aerospace and defense procurements. Defense electronics and military aerospace are covered by the defense segment; the civil aerospace segment includes civilian planes and space equipment, but excludes military aircraft and related items. The global aerospace and defense sector has witnessed a strong growth in the last few years. The sector is expected to grow steadily posting stronger sales in the coming years. According to MarketLine, the global aerospace and defense market generated total revenues of approximately \$1,305.7 billion in 2015. Furthermore, the market is expected to grow at a CAGR of 5% for the 2015-19 period to reach value of approximately \$1,559.7 billion in 2019.

The group offers a range of solutions for the global aerospace and defense sector. The Airbus Commercial segment is one of the leading aircraft manufacturers in the world, offering jet aircraft of more than 100 seats. In FY2015, this division had 387 customers and a total of 16,351 Airbus aircraft had been ordered, of which 9,520 aircraft were delivered to operators worldwide. In addition, the Airbus Defence and Space segment offers special mission aircrafts, dedicated for specialized military and security tasks such as in-flight refueling capabilities, maritime surveillance and antisubmarine warfare.

Hence, the growing global aerospace and defense market would provide significant opportunities to the group to boost up its sales and revenue in future.

Increasing demand for commercial airplanes

Air transport throughout the world is constantly changing in response to market opportunities and challenges. The rise of new airline business models and rapid growth of air travel in the world's emerging economies are stabilizing worldwide demand for airplanes. According to Airbus' Global Market Forecast 2016-2035, the global air traffic will grow at 4.5% annually, requiring some 33,000 new passenger and dedicated freighter aircraft. As a result, by 2035, the fleet of passenger aircraft (with 100 seats or more) and freighter aircraft (10 tons or greater), will be 39,820 aircraft, more than doubling the current 19,580 aircraft fleet in service. Single-Aisle passenger aircraft would represent the largest segment of the new deliveries with 23,530 aircraft over the next 20 years. The demand for twin- Aisle aircraft would reach 8,060 new aircraft. Further, the demand for very large aircraft would reach 1,480 over the next 20 years. Due to the growth in traffic demand in Asia Pacific, 50% of the top 20 traffic flows will involve Asia Pacific and 25% will involve the Middle East. Thus, the increasing demand for commercial airplanes could provide the top line growth for the group in the short to medium term as Airbus Group is well positioned both geographically and technically to service the huge aircraft market in the future.

Robust order backlog and new contracts

Airbus Group has been witnessing an increasing growth in its customer orders and product deliveries. At the end of FY2015, the group's order backlog stood at E1,005.9 billion (\$1,093.1 billion) at list prices, an increase of 17.3% over FY2014. Moreover, the Airbus division's commercial backlog stood at 6,831

aircrafts in FY2015. For the Defence and Space division, the order backlog stood at E42.9 billion (\$46.6 billion) in FY2015 including a book-to-bill ratio of more than one with new net orders of E14.4 (\$15.6 billion) billion. At the end of 2015, Airbus Helicopters backlog was at 831 helicopters and ATR had a backlog of 260 aircraft.

In addition, the group won several new contracts in the recent past. For instance, in September 2016, Vietnam Airlines signed a MoU with Airbus Group for 10 more A350-900 aircraft. Also, in July 2016, AirAsia signed an order with Airbus Group for the purchase of 100 A321neo aircraft. Further, in June 2016, A Chinese consortium made up of China Aviation Supplies Holding Company, Qingdao United General Aviation Industrial Development Company, and CITIC Offshore Helicopter Co. Ltd ordered 100 H135 light-twin helicopters. Furthermore, in February 2016, ATR and Iran Air signed a deal for the introduction of 40 newest generation ATR 72-600s. The agreement includes firm orders for 20 aircraft and 20 options.

Later, in 2015, India-based airlines Indigo signed a purchase agreement with Airbus Group to purchase 250 A320neo aircrafts. In the same year, International Airlines Group (IAG) signed a firm order with Airbus Group for 31 Airbus aircraft, which includes 11 wide-body aircraft (eight A350-900s, three A330-200s) and 20 A320neos. Further in 2015, CM International Financial Leasing (CMIFL) agreed to acquire 100 Airbus Helicopters Ecureuil-series rotorcraft over five years, with the initial order of 10 units to be delivered in 2016. Thus, the increasing customer orders of the group's products and services indicate stronger acceptance of its products. Additionally, it also enhances incremental growth of its production, which in turn would boost its revenues and profitability.

Expanding UAV market

The global unmanned aerial vehicles (UAV) market has been growing rapidly over the last few years and is expected to witness the same pace over the next few years. According to an industry estimates, the global UAV market is estimated to be approximately \$13.2 billion in 2016 and is anticipated to register a CAGR of more than 13.5% for the 2016-22 period, to reach approximately \$28.3 billion by 2022.

North America and Europe holds almost 67% share of the global UAV market. Unmanned Aerial Systems (UAS) are considered a key component of US defense transformation and an integral part of US Military doctrine. The Asia-Pacific is expected to witness a strong growth, due to increase in investments in defense and commercial applications in emerging countries such as China and India. Technological advancements in UAVs along with, their success in combat situations, and the rising demand for non-defense applications is expected to drive the UAV market, in future. The group through its Airbus defence and space division could take advantage of the growth in this industry.

Threat

Export controls and other regulations

The export market is a significant market for Airbus Group. In addition, many of the products Airbus Group designs and manufactures for military use are considered to be of national strategic interest. Consequently, the export of such products outside of Airbus Group's domestic markets may be restricted

or subject to licensing and export controls. These controls are subjected notably by the UK, France, Germany and Spain, where Airbus Group carries out its principal military activities as well as by other countries where suppliers come from, for instance, the US. The export controls to which Airbus Group is subject may become more restrictive in the future. Reduced access to military export markets may have a material adverse effect on Airbus Group's business, financial condition and results of operations.

In addition, Airbus Group is also subject to a variety of other governmental regulations that may adversely affect its business and financial condition, including, regulations relating to commercial relationships, and the use of its products and dealings with foreign officials. Furthermore, the group's ability to market new products and enter new markets may be dependent on obtaining government certifications and approvals in a timely manner. Although Airbus Group seeks to comply with all such regulations, even unintentional violations or a failure to comply could have a material adverse effect on Airbus Group's business, financial condition and results of operations.

Fluctuations in foreign currency exchange rate

Airbus Group operates worldwide with diversified presence in various countries and regions, including the US, Germany, the UK, France, China, India, Europe, Asia-Pacific, and other geographic regions. Therefore, Airbus Group's business transactions are done in various foreign currencies, which expose it to risks arising from volatility in exchange rates. The group's financial results are reported in Euro's and a significant portion of its sales and operating costs are transacted in US Dollars, and pounds sterling. The group's results of operations are therefore affected by movements in these currencies against the Euro. Significant fluctuations in relative currency values against the Euro could thus have a significant impact on the group's future profitability. Additionally, the settlement timing of its foreign currency derivatives could significantly impact its liquidity.

Intense competition

The markets in which Airbus Group operates are highly competitive. As a result of the competition, the group was impacted by downward price pressure. The competition between airlines may intensify, particularly in the context of a prolonged economic downturn in the future. In addition, the contracts for many aerospace and defense products are awarded, on the basis of home country preference. Airbus Group constitutes a multinational combination which in turn helps the group to broaden its domestic market. However, the group may also remain at a competitive disadvantage in certain countries, especially outside Europe, relative to local contractors for certain products. The strategic importance and political sensitivity attached to the aerospace and defense industries means that political considerations would play a role in the choice of many products for the foreseeable future. The group's major competitors include Boeing, Bombardier, General Dynamics, Lockheed Martin, Raytheon and Saab.

Thus, intense competition across all the operating divisions of the group could reduce its market share. In addition, the home country preference for issuing contracts in few countries may put the group at a competitive disadvantage when compared to its peers.

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